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Between Friends

"This is a deal that is highly advantageous to both parties," explained New York Times vice president Ivan Veit. "Mike Cowles and Punch Sulzberger have been personal friends for years and they discussed this as friends. It was all worked out in a friendly manner."

The upshot of this friendly swap (which is still subject to government approval) was announced last week. The way Punch and Mike worked things out, Cowles Communications, Inc., will acquire 23 per cent of the common stock of The New York Times—2.6 million shares currently worth about $50 million. In return, Cowles Communications board chairman Gardner (Mike) Cowles handed over to Arthur O. (Punch) Sulzberger, publisher of the Times, a $15 million debt and an impressive package of properties that launches the Times as a multimedia empire. Included in that package: Family Circle, the nation's third-largest women's magazine with a circulation, largely through supermarkets, of more than 7 million; WREC-TV, the No. 1 station in Memphis, Tenn.; three small but healthy Florida newspapers (The Lakeland Ledger, The Gainesville Sun and The Ocala Star-Banner); The Cambridge Book Co., a publisher of textbooks, and the Modern Medicine group of seven professional magazines.

While its new power in the A&P may seem incongruous to purists, the Times's decision to diversify surprised few insiders. "We've been looking at properties for three years," conceded Sidney Gruson, Sulzberger's assistant. "Like many large papers, we feel it is desirable not to keep all our eggs in one basket."

Dip: To put it another way, with its new acquisitions, the Times will now have assured outside income in the event of another prolonged New York newspaper strike. In addition, ownership of WREC will give the Times its first chance to dip its toe into television, a medium it has viewed rather loftily in the past, and the overseas editions of Family Circle and Modern Medicine will broaden its foreign base. And the current profits from all the Cowles properties—$3 million for the past nine months—more than offset the interest on the $15 million debt.

In purely commercial terms, Mike Cowles also had reason to be pleased. A year ago Cowles folded Long Island's Suffolk Sun (at a loss of $15 million); in July he sold his profitable San Juan Star; and Look magazine, the flagship of Cowles Communications, continues to lose key personnel and money (NEWSWEEK, Sept. 14). Against this background, Cowles's latest transaction created the impression of a corporate rummage sale. Yet most people agreed that, in acquiring $50 million worth of Times stock, Cowles had made a very good deal for himself indeed—and, in seeming confirmation of that judgment, Cowles Communications' hitherto sluggish stock immediately went up 35 per cent. "In addition to the 23 per cent interest in the Times, I am now debt-free," Cowles said. "Cowles Communications now has a large amount of capital; with the Times stock we have assets of $100 million. I have no thought of disposing of anything else, and certainly no intention of selling Look."

In fact, Cowles—who would probably find it just as hard to sell Look as to fold it—was now in a better position to keep the magazine going. But in the wake of his deal with the Times, there could be no doubt that as one journalistic empire burgeoned, another was contracting.

Time for a Change

Cowles Communications was not the only media empire that found it expedient to trim its sails last week. Undertaking what board chairman Andrew Heiskell called "a reallocation of resources," Time Inc. sold its entire domestic broadcasting operation to McGraw-Hill for $80.1 million. For its money, McGraw-Hill got ownership of four VHF television stations (KOGO San Diego, KLZ Denver, WFBM Indianapolis and WOOD Grand Rapids, Mich.), their AM and FM radio counterparts and KERO-TV, a UHF station in Bakersfield, Calif. As for Time Inc., it avowedly intended to use its new pool of capital to make further investments in cable television and video cassettes (Time now owns fourteen CATV systems). "We think that there's more dynamic potential and a more dynamic future for us in areas outside of regular TV and radio," said Time Inc. vice president Don Wilson. "That's the real reason for the sale."

To many people familiar with the business aspects of media, this seemed like sound reasoning. "With CATV a pressing reality nowadays," noted a communications expert at the New York brokerage house of Oppenheimer & Co., "the future of regular broadcasting is somewhat up in the air." But the timing of the Time Inc. sale, and the fact that the corporation was surrendering profitable properties, inevitably suggested comparisons with the plight of Cowles Communications.

Cost: Both Time and Cowles were pioneers in media diversification, but both are now selling, not buying—chiefly because each is saddled with a mass-circulation picture magazine that is losing money but cannot easily be killed, if only because of the prohibitive cost of paying off millions of subscribers. And as if the travail of Look and Life were not trouble enough, both Cowles and Time have added to their financial problems with disastrous secondary investments. (Time's losses on its investments in General Learning Corp. and Metro-Goldwyn-Mayer pictures are estimated at about $15 million.)

By contrast, McGraw-Hill brings to its new television empire (because of FCC regulations it will have to resell the radio stations it bought from Time) a corporate structure that is highly vital: in a time of general industry cutbacks, McGraw-Hill's 50-odd business and trade publications are flourishing. And while the company may be taking a risk by plunging into conventional broadcasting in the '70s, it has a habit of making its risks pay off.